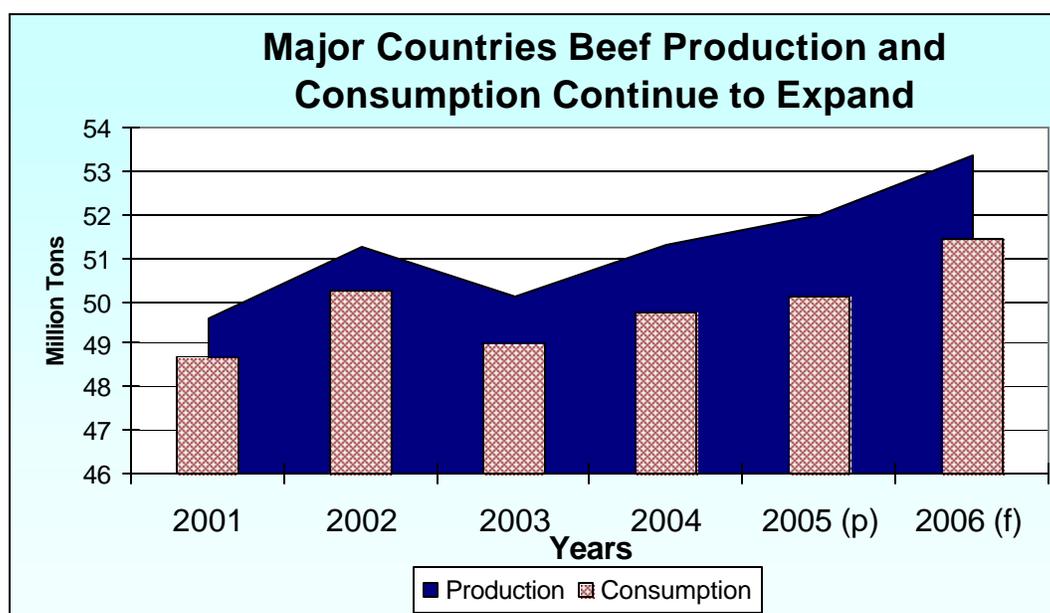


## Production



Source: Production, Supply and Distribution Database, FAS

## Beef

### *Production Reaches New High*

For countries tracked by USDA, levels of beef production, consumption, imports and exports continue to follow their recent trend of annual historic highs. Production of beef by major producers in 2006 is forecast to increase about 3 percent above the 2005 level to 53.4 million tons largely due to growth in Brazil and China. Beef production in the European Union will continue its slow decline and Russia will also experience a drop in production. New Zealand production will expand to serve Asian export markets closed to the United States and Canada and still continue to serve the United States and Canadian markets. Dry conditions in Australia have reduced feed grain and fodder supplies which created downward pressure on inventories, constraining production growth.

### *EU Production Continues to Decline*

The European Union became a net importer of beef in 2003 as EU beef consumption rebounded from a BSE-induced decline and production has decreased. Total beef production in the European Union will continue to decline in 2006, to 7.8 million tons, as increases in the beef herd in New Member States (NMS) have not offset EU total decreases in dairy herds.

The decoupling of payments under the reform to the EU Common Agricultural Policy (CAP) reduced cow numbers (and hence beef production) and caused an increase in prices. Further, the NMS are net beef exporters and dairy quotas under the accession agreement have forced the culling of dairy cattle. However, this increase in beef production in the NMS may be short lived as EU policies are likely to increase grain prices, and hence production costs in the NMS.

### *Brazil: Long Term Growth and Potential*

Brazil's rise to dominate the world beef market is not a short-term phenomenon. Investments in the cattle and beef industry remain strong as Brazil maintains an export-orientated focus. In 2001, only 11 percent of Brazilian beef production was exported. In 2006, this share is forecast to climb to 21 percent to 1.8 million tons.

There is still room for production and export growth. For example, the majority of Brazil's cattle are traditional breeds, with a fraction being improved cross-breeds. However, this is changing as during the past five years, the use of artificial insemination in beef cattle has increased by over 50 percent. Despite improved genetics, Brazil produces predominantly lower-value grass-fed beef.

### *China Continues to Expand Beef Production*

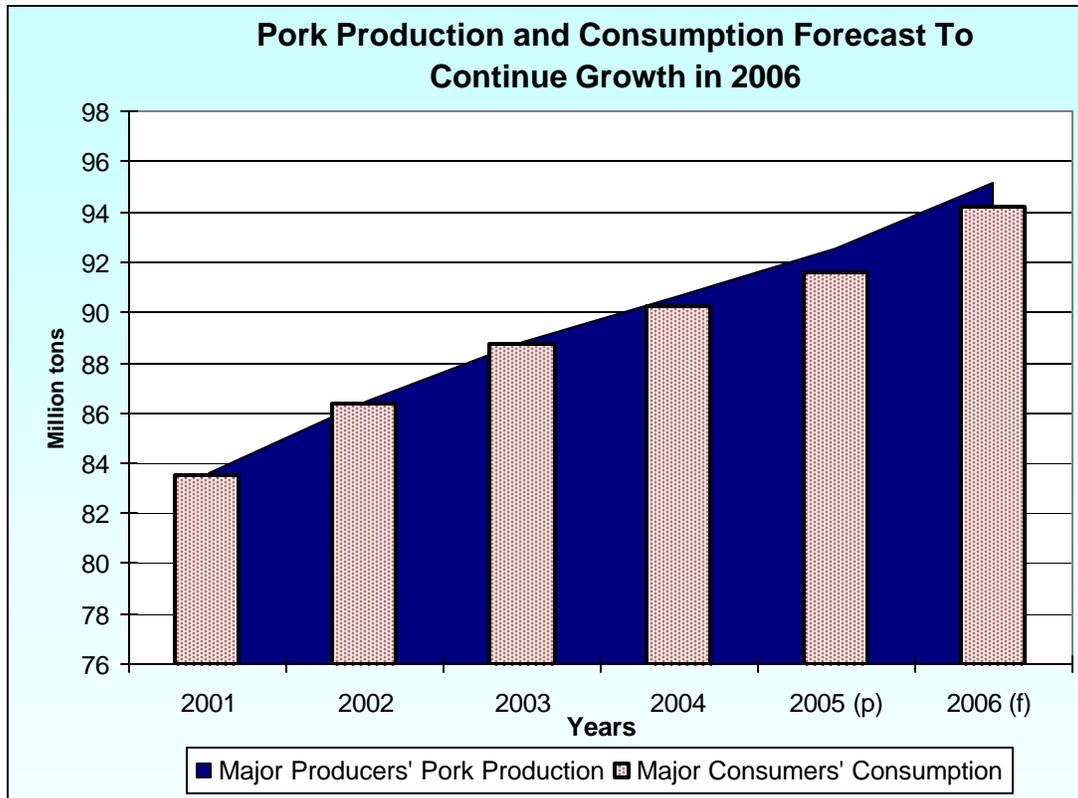
Chinese beef production will expand over 6 percent in 2006 to 7.6 million tons. The gap created as production is unable to keep pace with strong demand will drive up beef prices as well as the expansion of China's cattle and beef industry in 2006. Government efforts will assist in constraining the spread of FMD though animal disease surveillance and controls still needs further tightening. China faces significant challenges to expand its cattle sector as it lacks grass and forage resources, breeding stock, water and energy resources, and transportation facilities.

### *The United States and Canada: A Changing Relationship*

On July 18, 2005 after the implementation of the USDA minimal risk region rule, the United States allowed certain live cattle imports from Canada for the first time in more than two years. However, despite attractive prices in the United States, Canadian live cattle exports to the United States have not resumed to the pre-BSE period average levels. Canadian exports of cattle, virtually all to the United States, are forecast at nearly 900,000 head in 2006, down 31 percent from the 2000 to 2002 average of 1.3 million head.

The relationship between the United States and Canada cattle and beef industries may have changed. As a result of being shut out of the United States market, the Canadian cattle industry is implementing a strategy to reposition itself to be less reliant on the United States processing industry while expanding domestic slaughter. In 2005, Canadian slaughter is expected to be nearly 20 percent, or about 800,000 head, above 2002 levels.

U.S. beef production is forecast to increase 4 percent in 2006 to 11.8 million tons. Larger cattle imports due to continued imports of under 30 month old cattle from Canada are expected to help boost slaughter numbers, relatively low-priced feed, and continued firm demand should encourage producers to feed cattle to heavier weights.



Source: Production, Supply and Distribution Database, FAS

## Pork

### *Continued Strong Production in 2006*

Accounting for 76 percent of the major producers' increase forecast in 2006, China will drive pork production for those countries 3 percent higher in 2006 to just over 95 million tons. China will continue to dominate as the world leader with nearly 51 million tons of pork production. Increases in pork production will occur in the European Union and Russia in 2006. Brazilian pork production will increase just over 3 percent to slightly more than 2.8 million tons in 2006 as the FMD-impacted region of Mato Grosso do Sul is not a major pork producing region.

Pork production continues to benefit from its role as a substitute for animal protein when trade in beef and poultry declines due to

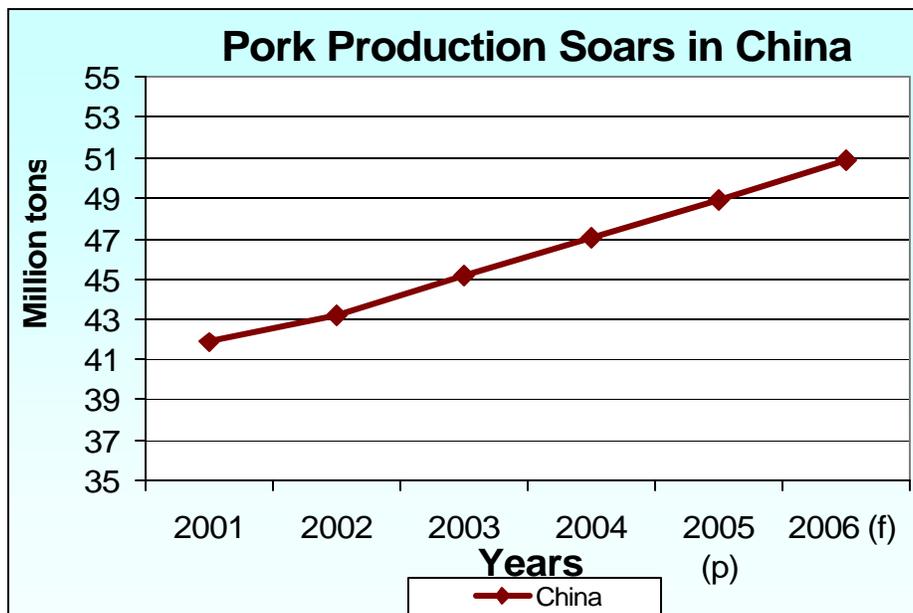
disease-related bans. Growth in pork production and consumption in some regions is due to substitution, while recent export growth in the other regions such as Mexico has been income driven.

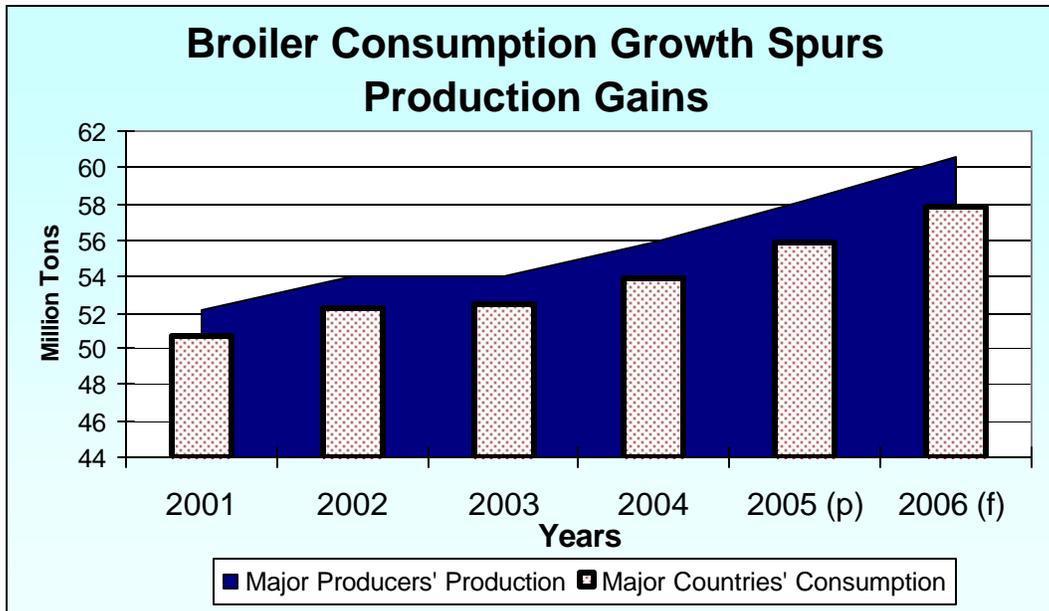
*China:* Despite various obstacles, China's swine production has benefited from efficiency gains due to improved breeds and feed. This is reflected by increased imports of breeding swine. Increasing percentages of sow stocks compared to total inventory will translate into continued strong swine production in 2005 and 2006. Investment in hog slaughter and pork processing has also risen. Increased foreign investment through joint ventures will continue to boost efficiency and production.

*European Union:* With inventories, increasing, the 2006 pig crop is expected to increase, especially in the New Member

States (NMS). In line with increased slaughter, pork production is forecast to rise approximately 1 percent in 2006 to nearly 21 million tons.

*United States:* The United States market is currently signaling producers to expand production. However, hog producers seem to be holding back. Production in recent years has been export driven. While only 8 percent of U.S. pork production was exported in 2001, 13 percent of U.S. pork production is forecast to be exported in both 2005 and 2006. In 2006, U.S. pork exports are forecast to reach a high of nearly 1.3 million tons.





Source: Production, Supply and Distribution Database, FAS

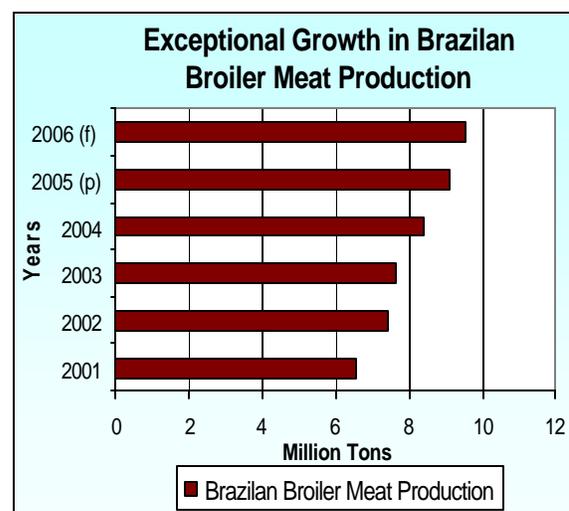
## Poultry

### *Production Forecast to Grow Again in 2006*

Poultry meat production by major producing countries is forecast to increase nearly 4 percent in 2006 to 65.6 million tons. With significant growth in Brazil, China, India, and the United States as well as a rebound in production in Asia, poultry production continues to expand worldwide. Despite higher oil and energy prices in 2006, moderate feed prices and continued integration and concentration will facilitate world poultry production.

**United States:** The United States accounts for the largest portion of the increase in broiler meat production forecast for 2006. Most of the increase in production will be consumed in the United States but exports are expected to benefit from increased production.

**Brazil:** Brazil also accounts for a large portion of the increase in world broiler meat production in 2006. Brazilian broiler meat production is expected to increase 5 percent to just over 9.5 million tons in 2006. This follows significant production increases in the past two years.



Source: Production, Supply and Distribution Database, FAS

The increase in broiler meat production continues to be driven by record exports as Brazil expands sales to various markets such as Japan due to AI-related bans on several of its competitors. From January to August 2005, Brazil increased its exports to Japan by 35 percent. In addition, domestic consumer demand and increased domestic soybean meal supply has supported broiler industry growth in Brazil.

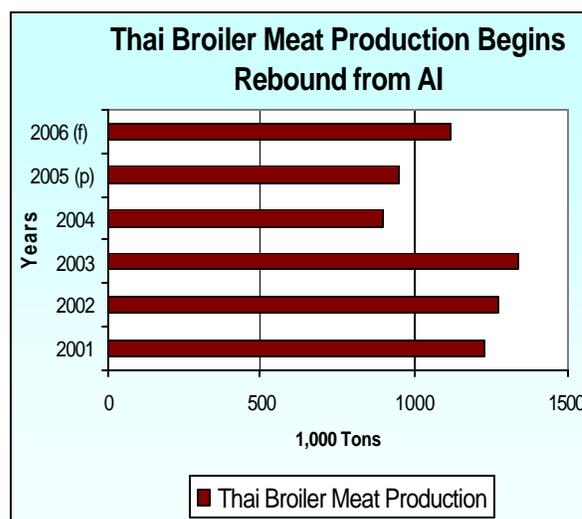
**Mexico:** Production of broiler meat is expected to increase 22 percent to just over 2.6 million tons between 2002 and 2006. Production has expanded faster than beef and pork production. Mexico's rapidly growing poultry industry is becoming increasingly concentrated, integrated, and modern. However, producers have been unable to keep pace with growing consumption. Mexican poultry consumption is climbing due to population growth, the affordability of poultry relative to other meats, effective marketing, increased usage in processed food products, and improved product quality. The result is an expected 42-percent increase in imports from 2002 to 2006.

**European Union:** While poultry production has mostly recovered from the 2003 AI outbreak in the Benelux and the 2003 nitrofurans scare in Portugal, producers and processors in the entire EU-25 are still adapting to the new market situation as a result of the 2004 EU enlargement. EU broiler production is expected to increase slightly in 2006 to reach nearly 7.7 million tons in 2006, while consumption is slowly increasing, particularly in the New Member States. The result is a growing import market which is anticipated to increase nearly 5 percent in 2006 to 460,000 tons.

**Argentina:** Production has skyrocketed in recent years, an expected 84 percent from 2002 to 2006, to nearly 1.2 million tons. The increase is a result of good profitability in the sector, very competitive broiler prices in the domestic market and the opening of new export markets.

**Southeast Asia:** The impact of AI on countries such as Indonesia and Thailand has been particularly difficult for small and medium sized producers who do not have the capital to withstand the economic shock such as animal loss through government ordered culling (with no or below-market compensation) and price declines following loss of export markets. Thailand lost an estimated 20 to 25 percent of its poultry inventory. Approximately 23 percent of Thai small and medium sized chicken producers are believed to have exited the industry following recent AI outbreaks.

In 2006, Thai broiler meat production is to increase to just over 1.1 million tons. However, this is still 16 percent below pre-AI levels of 2003. Indonesian broiler meat production is expected to reach 672,000 tons in 2006, which is still below 2003 production levels.



Source: Production, Supply and Distribution Database, FAS